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SUBJECT: MALAWI'S 2009-10 BUDGET: NO SURPRISES TO START MUTHARIKA'S
SECOND TERM

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¶1. Summary: Minister of Finance Ken Kandodo presented the first budget of President Mutharika's second term to Malawi's National Assembly on July 3. Largely a continuation of previous GOM economic policies, the budget contained no significant surprises. Spending is projected to increase to USD 1.8 billion, up two percent over 2008-09, and domestic debt will fall USD 46 million. Agriculture continues to receive the largest expenditure, followed by transport and infrastructure, education, and health. The budget includes a variety of tax reductions to spur business investment. Kandodo noted that the agricultural input subsidy program would not be a long-term solution to food security in Malawi. Instead, greater emphasis would be placed on the President's "Greenbelt" initiative and increasing irrigation and mechanization in the agricultural sector. End summary.

New Minister, Familiar Budget

¶2. On July 3, new Minister of Finance Ken Kandodo presented his first budget to Malawi's National Assembly. Kandodo was named as Minister in President Mutharika's second administration only three weeks ago. Kandodo thanked former Finance Minister Goodall Gondwe (now Minister of Local Government and Rural Development) for his excellent service to Malawi and noted that Malawi has enjoyed strong growth in recent years, reaching 9.7 percent in 2008. Kandodo projected this to continue, with growth forecast at 7.9 percent for ¶2009. The GOM projects 9.7 percent inflation in 2009 and 7.7 percent in 2010.

¶3. Total expenditure for FY 2009-10 is budgeted at USD 1.8 billion, a two percent increase over FY 2008-09 expenditures. The GOM projects income of USD 1.7 billion, including USD 985 million in tax revenue, USD 164 million in non-tax revenue, and USD 571 million in grants. The planned fiscal deficit is USD 88 million, equivalent to 1.6 percent of GDP. With foreign loans amounting to USD 134 million, the overall budget will yield a surplus of USD 46 million that will be used to repay domestic debt.

Expenditure Highlights

¶4. The priorities set in the 2009-10 budget follow the trend set in President Mutharika's previous administration. The budget prioritizes economic growth while safeguarding food security, promoting health and development of human capital. Agriculture and food security receive the largest allocations, USD 217 million. As previously, the bulk of agriculture spending will be devoted to the administration's signature input subsidy program, which will provide low cost fertilizer to 1.7 million farmers. Kandodo highlighted integrated rural development, especially development of 'rural

growth centers,' as the administration's second key focus. Other important sectors in the budget include transport and power infrastructure, education, and health.

¶5. Kandodo noted that the agricultural input subsidy program would not be a long-term solution to food security in Malawi. Instead, the GOM would place greater emphasis on irrigation and mechanization of the agricultural sector, as exemplified by the President's "Greenbelt" initiative. Also noteworthy is the increased emphasis on education in the new budget, with the sector receiving a 27 percent increase over last year's budget. In the power sector, Kandodo highlighted the completion of the rehabilitation of the Tedzani II power station, commencement of the Kapichira II power station (to be completed in 30 months), and the power interconnector project with Mozambique.

Tax Revenue Measures

¶6. Kandodo asserted that friendly tax policies implemented in the past have helped support strong economic growth and said this year's budget aims to consolidate such gains. The budget plan raises the minimum turnover threshold for VAT registration from USD 14,000 to USD 44,000 and a simplified turnover tax of 2 percent replaces both VAT and company taxes for businesses making below the USD 44,000 threshold, easing the tax burden on small business. The GOM proposes to eliminate customs duties on a variety of items considered necessary in manufacturing or for development.

Comment:

¶7. The 2009-10 budget continues the GOM's recent successful policies and contains no surprises. It is clear that while Kandodo presented the budget, former Finance Minister Gondwe had a strong hand in its

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drafting. With small growth in overall expenditures, and a budgeted reduction in domestic debt, the budget reflects encouraging fiscal discipline. Kandodo's admission that the GOM will move away from reliance on the widely popular agricultural input subsidy program is positive. While effective in boosting Malawi's agricultural production in recent years, the program has been hugely expensive.

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